

FISCAL NOTE

Bill #: HB0204

Title: Affordable Health Insurance Act

Primary Sponsor: Lawson, B

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

FY 2004

FY 2005

Difference

Difference

Expenditures:

General Fund	\$19,841,575	\$25,602,311
State Special Revenue	\$72,312,914	\$70,083,437
Federal Special Revenue	\$56,355,011	\$53,394,326

Revenue:

General Fund	\$26,888,724	\$25,871,836
State Special Revenue	\$72,317,766	\$70,102,563
Federal Special Revenue	\$56,355,011	\$53,394,326
Capital Projects Fund	(\$261,841)	(\$287,266)

Net Impact on General Fund Balance:

\$7,047,150

\$269,525

- | | |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

Revenues

Health Insurance Tax Credits

1. Under this bill, **qualifying employers** would be allowed a tax credit of up to \$100 per month per employee or employee's spouse if the average age of the group is under 45 (or up to \$125 per month if the average age of the group is 45 or older); and up to \$40 per month for each dependent (not to exceed two dependents per employee); for health insurance coverage provided by the employer. The employer must match the amount of the credit claimed to qualify.
2. To receive the benefit of the credit, the employer may either (a) apply the credit against taxes due for the current tax year, or (b) request that the Department of Revenue make direct credit payments to the health benefit plan carrier(s), as provided for in the bill. The credit applied against taxes due is a "refundable" credit; that is, if the credit amount exceeds the taxpayers tax liability, the excess will be refunded to the taxpayer. To obtain the credit, each employer must be registered with the state auditor's office.
3. **Qualifying individuals** would be allowed a tax credit of up to \$75 per month for each insured individual under age 19 who is not a dependent; up to \$125 per month for each insured individual who is between the

Fiscal Note Request HB0204, As Introduced

(continued)

- ages of 19 and 45 (or up to \$200 per month if age 45 or older); and up to \$40 per month for each dependent of the “primary insured individual” (not to exceed two dependents); for health insurance procured by the individual either independently or through policies obtained by a “small group employer”.
4. To receive the benefit of the credit, the individual may either (a) apply the credit against taxes due for the current tax year, or (b) request that the Department of Revenue make direct credit payments to the health benefit plan carrier(s), as provided for in the bill. The credit applied against taxes due is a “refundable” credit; that is, if the credit amount exceeds the taxpayers tax liability, the excess will be refunded to the taxpayer. To obtain the credit, each individual must be registered with the state auditor’s office. Individuals who claim the credit may not also use the deduction for health insurance premiums. All eligible taxpayers who use the deduction for health insurance premiums now would take the credit rather than the deduction.
 5. The bill provides that the State Auditor’s Office is to establish by rule the maximum number of employees that an employer may employ in order to qualify for the credit (the number cannot be less than 4 or greater than 9). This number may change every six months. The bill further provides that the number must be set to maximize the number of individuals and employees receiving health care insurance coverage. The number will be set in such a manner as to utilize all revenue available for providing health insurance tax credits, but no more than this amount.
 6. Corporations and individuals may begin requesting the Department of Revenue to provide direct payments to health benefit plan providers on January 1, 2004. The health insurance tax credit sunsets after 2008.

Elderly Insulin/Prescription Drug Tax Credit

7. Under this bill, qualifying taxpayers age 65 and older may receive a *refundable* credit for the actual out-of-pocket expenses incurred for insulin or prescription drugs or medicine equal to 50% of the amount paid, up to a maximum credit of \$350. The credit applies beginning with tax year 2004. There is no impact from this credit in fiscal year 2004, and the full impact of the first year’s credit will occur in fiscal year 2005.
8. For single and head of household taxpayers the full credit is allowed only for households with incomes up to \$22,500; and is then reduced by \$1 for every \$5 of income over \$22,500 so that no credit is allowed for households with incomes in excess of \$24,250. For married couples the full credit is allowed only for households with incomes up to \$36,000; and is then reduced by \$1 for every \$5 of income over \$36,000 so that no credit is allowed for married couple households with incomes in excess of \$37,750.
9. Based on an examination of Census 2000 and individual income tax database information, there are 54,000 persons age 65 or older with incomes that qualify them for the credit. Utilization rates for this credit will be high with one-third of all eligible persons using the credit in the first year of the program, half of all eligible persons using the credit in the second year of the program, and two-thirds of all eligible persons using the credit in the third and subsequent years of the program. All persons using the credit will take the maximum credit of \$350.
10. The above assumptions result in tax credits of \$6,300,000 for tax year 2004 (fiscal year 2005); \$9,450,000 for tax year 2005 (fiscal year 2006); and \$12,600,000 for tax year 2006 (fiscal year 2007).

Cigarette and Tobacco Products Tax Increase

11. The current law cigarette tax rate is \$0.18 per pack; under this proposal, the cigarette tax rate is increased by \$1.50 to \$1.68 per pack.
12. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans’ nursing homes.

Fiscal Note Request HB0204, As Introduced

(continued)

13. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 88.7% to the Health and Medicaid Initiatives state special revenue account created in the bill; 8% to the state general fund; 1.8% to the Long-Range Building Program Account; and 1.5% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
14. This proposal decreases the discount rates that wholesalers receive. The rates drop from 6% of the full face value of the insignia (tax) to 3% for the first 2,580 cartons purchased; from 4% to 2% for the next 2,580 cartons purchased; and from 3% to 1% for purchases in excess of 5,160 cartons.
15. Increasing the cigarette tax rate from \$0.18 to \$1.68 per pack will generate new net revenue of \$68,426,354 in fiscal 2004 and \$65,975,708 in fiscal 2005. Revenue to the state general fund will **decrease** by \$1,439,492 in fiscal 2004 and \$1,549,183 in fiscal 2005. Revenue to the Long-Range Building Program Account will **decrease** by \$261,841 in fiscal 2004 and \$287,266 in fiscal 2005. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will **increase** by \$4,852 in fiscal 2004 and decrease by \$19,126 in fiscal 2005. Revenue to the Health and Medicaid state special revenue account will **increase** by \$70,122,986 in fiscal 2004 and \$67,831,292 in fiscal 2005. Discounts to wholesalers will **increase** by \$994,281 (271%) in fiscal 2004 and \$981,852 (271%) in fiscal 2005.
16. The impacts in assumption fifteen are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee (RAT) cigarette tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to RAT's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of a tax increase. Given a base cost of \$3.21 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.14%.
17. The cigarette tax impacts provided for in this fiscal note include impacts associated with the price elasticity of demand for cigarettes, but do not include forecasts of declines in consumption of taxable cigarettes due to Internet sales of cigarettes, the impacts of current and future local government resolutions providing for non-smoking ordinances, or the effects of future increased tobacco prevention programs. These issues are being explored by the Department and will be incorporated in cigarette tax change impact analyses as data and forecast methodologies are further developed and refined.
18. The current law tobacco products tax rate is 12.5% of the wholesale price; under this proposal, the tobacco products tax rate is increased to 25% of the wholesale price.
19. Under current law, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund. Under this proposal, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 50% to the state general fund and 50% to the Health and Medicaid state special revenue account.
20. Increasing the tobacco products tax rate from 12.5% to 25% of the wholesale price will generate new net revenue of \$2,026,856 in fiscal 2004 and \$2,060,291 in fiscal 2005. Revenue to the state general fund will **decrease** by \$163,072 in fiscal 2004 and \$191,855 in fiscal 2005. Revenue to the Health and Medicaid state special revenue account will **increase** by \$2,189,928 in fiscal 2004 and \$2,252,145 in fiscal 2005. Discounts to wholesalers will **increase** by \$16,899 (14%) in fiscal 2004 and \$17,553 (14%) in fiscal 2005.
21. The impacts in assumption twenty are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee's tobacco products tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to the base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.

Fiscal Note Request HB0204, As Introduced
(continued)

22. The following table shows the summary of the impacts from the cigarette tax increase and the tobacco tax increase under the assumption that there will not be significant stockpiling by the wholesalers or retailers of cigarettes taxed at \$0.18 per pack and tobacco products taxed at 12.5% of wholesale price, and there will not be significant amounts of illegal sales of cigarette and tobacco products.

Summary of Cigarette and Tobacco Tax Rate Increase Impacts HB204 (2003 Session) As Introduced ¹		
	FY2004	FY2005
Cigarette Tax		
Net Revenue		
Revenue - Current Law	\$ 10,630,000	\$ 10,497,000
Revenue - Proposed Law	\$ 79,056,354	\$ 76,472,708
Change In Revenue	\$ 68,426,354	\$ 65,975,708
% Change In Revenue	643.7%	628.5%
Change in Revenue		
General Fund	\$ (1,439,492)	\$ (1,549,183)
LRBP	\$ (261,841)	\$ (287,266)
DPHHS (Vet. Nursing Homes)	\$ 4,852	\$ (19,126)
Health/Medicaid Account	\$ 70,122,986	\$ 67,831,292
Tobacco Products Tax		
Net Revenue		
Revenue - Current Law	\$ 2,353,000	\$ 2,444,000
Revenue - Proposed Law	\$ 4,379,856	\$ 4,504,291
Change In Revenue	\$ 2,026,856	\$ 2,060,291
% Change In Revenue	86.1%	84.3%
Change in Revenue		
General Fund	\$ (163,072)	\$ (191,855)
Health/Medicaid Account	\$ 2,189,928	\$ 2,252,145
Impact From Both Taxes		
Net Revenue		
Revenue - Current Law	\$ 12,983,000	\$ 12,941,000
Revenue - Proposed Law	\$ 83,436,211	\$ 80,976,999
Change In Revenue	\$ 70,453,211	\$ 68,035,999
% Change In Revenue	542.7%	525.7%
Change in Revenue		
General Fund	\$ (1,602,563)	\$ (1,741,038)
LRBP	\$ (261,841)	\$ (287,266)
DPHHS (Vet. Nursing Homes)	\$ 4,852	\$ (19,126)
Health/Medicaid Account	\$ 72,312,914	\$ 70,083,437
¹ The impacts are calculated on the basis that there will not be significant stockpiling by wholesalers and retailers, and there will not be significant amount of illegal sales of cigarettes and tobacco products.		

23. The bill provides for the allocation of the revenue deposited in the Health and Medicaid Initiatives Account as shown in the following table:

Fiscal Note Request HB0204, As Introduced
(continued)

HB204 - Allocation of Health and Medicaid Initiatives Account			
Total Revenue Deposited in Account:		FY2004 72,312,914	FY2005 70,083,437
Distribution of Revenue		Percent	
Reimbursements to General Fund for:			
- Health insurance tax credits	27.20%	19,669,113	19,062,695
- Senior drug-related expenses	12.20%	8,822,176	8,550,179
DPHHS (CHIP Program)	3.70%	2,675,578	2,593,087
DPHHS (Increase Medicaid)	29%	20,970,745	20,324,197
OPI (School employee health coverage)	27.50%	19,886,051	19,272,945
State Auditor's Office (admin. costs)	0.40%	289,252	280,334
Total Allocations		72,312,914	70,083,437

Expenditures

Department of Revenue

24. This bill significantly increases the workload for the Department of Revenue. Sections 3 and 8 of the bill require the Department to make direct, periodic credit payments to health benefit plan carriers for employers and individuals who request the Department to do so. In some cases the credit may be payable to more than one health benefit plan carrier for a single employer or individual. This will require extensive systems development and record keeping procedures to adequately track and monitor credit payments. Any questions that surface related to billing and payments issues will include not only the taxpayer and benefit provider, but the Department as well. The Department could incur additional audit expense in this process as well to ensure that correct credit payments are billed and paid. To administer the provisions of this bill the Department of Revenue will need 3.50 additional FTE in fiscal 2004 and 6.25 additional FTE in fiscal 2005. Additional administrative expenses total \$172,462 in fiscal 2004 and \$239,616 in fiscal 2005.

State Auditor's Office

25. State Auditor's Office will be responsible for the small group and individual health insurance tax credit program included in this bill. SAO will implement the eligibility and outreach programs. Other agencies are responsible for the rest of the bill.
26. Each employer and individual that proposes to claim under the provisions of this bill must be registered with the State Auditor's Office (SAO). This registration must include the number of claimed tax credits.
27. The (SAO) will need 4.0 FTE to implement this program. These FTE would consist of a Grade 15 Bureau Chief, 2.0 Grade Twelve Eligibility and Compliance Specialist, and a Grade Twelve Financial Specialist and related operating costs to implement this program.
28. Section 20 of this bill appropriates to the SAO an amount equal to 0.4% of the revenue deposited in the account for the current fiscal year not to exceed \$325,000 for fiscal year 2004 and \$310,000 for fiscal year 2005 for the eligibility, enrollment, outreach, and administration for the tax credit program.

Fiscal Note Request HB0204, As Introduced
(continued)

Department of Public Health and Human Services

29. Section 20 Appropriates 3.7 percent of revenue deposited to the Health and Medicaid Initiatives account to DPHHS for the children's health insurance program (CHIP). This is projected at \$2,675,578 in fiscal year 2004 and \$2,593,087 in fiscal year 2005.
30. Section 20 Appropriates 29 percent of revenue deposited to the Health and Medicaid Initiatives account to DPHHS for increased services or provider rates in the Medicaid program. This is projected at \$20,970,745 in fiscal year 2004 and \$20,324,197 in fiscal year 2005.
31. The federal Medicaid match rate is 72.88 percent federal funds/ 27.12 percent state funds in fiscal year 2004 and 72.43 percent federal funds/27.57 percent state funds in fiscal year 2005. Applying this matching rate generates federal funds of \$56,355,011 in fiscal year 2004 and \$53,394,326 in fiscal year 2005.

Office of Public Instruction

32. Section 20 Appropriates 27.5 percent of revenue deposited to the Health and Medicaid Initiatives account to OPI for augmentation of school employee health care coverage. This is projected at \$19,886,051 in fiscal year 2004 and \$19,272,945 in fiscal year 2005. These fund must be used for additional state expenditures on school employee health insurance and cannot replace current state expenditures. No specific direction is provided in the bill for the form of this aid.

FISCAL IMPACT:

Department of Revenue

	<u>FY 2004</u>	<u>FY 2005</u>
	<u>Difference</u>	<u>Difference</u>
FTE	3.50	6.25

Expenditures:

Personal Services	\$117,271	\$211,761
Contracted Services	4,147	0
Operating Expenses	15,794	27,855
Equipment	34,800	0
NonBudgeted Transfers to GF	<u>28,491,289</u>	<u>27,612,874</u>
TOTAL	\$28,663,751	\$27,852,490

Funding of Expenditures:

General Fund (01)	\$172,462	\$239,616
State Special Revenue (02)	\$28,491,289	\$27,612,874

State Auditor's Office

FTE	4.0	4.0
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Expenditures:

Personal Services	137,400	137,400
Operating Expenses	<u>152,052</u>	<u>142,934</u>
TOTAL	\$289,452	\$280,334

Funding of Expenditures:

State Special Revenue (02)	\$289,452	\$280,334
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Department of Public Health and Human Services

Expenditures:

Benefits (CHIP and Medicaid)	\$80,001,334	\$76,311,610
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Fiscal Note Request HB0204, As Introduced
(continued)

Funding of Expenditures:

State Special Revenue (02)	\$23,646,323	\$22,917,284
Federal Special Revenue (03)	56,355,011	53,394,326

Office of Public Instruction

Expenditures:

Local Assistance	\$19,886,051	\$19,272,945
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Funding of Expenditures:

State Special Revenue (02)	\$19,886,051	\$19,272,945
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Revenues (All Agencies):

General Fund (01)		
Cigarette Tax	(\$1,439,492)	(\$1,549,183)
Tobacco Products Tax	(163,072)	(191,855)
Income Taxes	(19,669,113)	(25,362,695)
Transfers from HMI account	28,491,289	27,612,874
State Special Revenue (02)		
Health and Medicaid Initiatives Fund		
Cigarette Tax	70,122,986	67,831,292
Tobacco Products Tax	2,189,928	2,252,145
Veteran's Home Fund		
Cigarette Tax	4,852	19,126
Federal Special Revenue (03) Medicaid	56,355,011	53,394,326
Capital Projects Fund (05)		
Cigarette Tax	(261,841)	(287,266)

Net Impact on Fund Balance (Revenue minus Funding of Expenditures)

General Fund (01)	\$7,047,150	\$269,525
State Special Revenue (02)		
Health and Medicaid Initiatives Fund	0	0
Veteran's Home Fund	4,852	19,126
Federal Special Revenue (03) Medicaid	0	0
Capital Projects Fund (05) LRBP	(261,841)	(287,266)

The following table shows the net financial impact on the state general fund, the Health and Medicaid Initiatives Account, and other state special revenue accounts and agencies under this proposal in fiscal years 2004 and 2005.

Fiscal Note Request HB0204, As Introduced
(continued)

HB204 - Financial Impacts		
State General Fund	FY2004	FY2005
Administrative Expenses	(172,462)	(239,616)
Cigarette Tax	(1,439,492)	(1,549,183)
Tobacco Tax	(163,072)	(191,855)
Health Insurance Credits/Payments	(19,669,113)	(19,062,695)
Elderly Insulin/Prescription Drug Credits	0	(6,300,000)
Transfers from Health and Medicaid Initiatives Account		
- For Health Insurance Credits	19,669,113	19,062,695
- For Elderly Insulin/Pres. Drug Credits	8,822,176	8,550,179
Net Impact on GF	7,047,150	269,525
Health and Medicaid Initiatives Account		
Cigarette Tax Revenue	70,122,986	67,831,292
Tobacco Tax Revenue	2,189,928	2,252,145
Transfers to Other Accounts		
- To GF for Health Insurance Credits	(19,669,113)	(19,062,695)
- To GF for Elderly Drug Credit	(8,822,176)	(8,550,179)
- To DPHHS (Chip Program)	(2,675,578)	(2,593,087)
- To DPHHS (Increase Medicaid)	(20,970,745)	(20,324,197)
- To OPI (School Health Coverage)	(19,886,051)	(19,272,945)
- To State Auditor's Office (Admin Costs)	(289,252)	(280,334)
Net Balance in Account	0	0
Net Impact on Other Accounts/Agencies		
Long-Range Building Program - Cigarette Tax	(261,841)	(287,266)
DPHHS - Veteran's Nursing Homes - Cigarette Tax	4,852	(19,126)
DPHHS - Chip Program	2,675,578	2,593,087
DPHHS - Medicaid Program	20,970,745	20,324,197
OPI - School Employee Health Benefits	19,886,051	19,272,945
State Auditor's Office	289,252	280,334

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The impact to school revenues and expenditure will depend on the nature of the \$19-20 million per year aid given for school employee health insurance. If the aid replaces district expenditures local property taxes may be reduced or other expenditures increased. If the funds are used for expansion of benefits or reduction of employee expenses there will be not reduction in taxes.

Fiscal Note Request HB0204, As Introduced
(continued)

LONG-RANGE IMPACTS:

As a result of the cigarette and tobacco products tax increase, revenue to the state general fund, Long-Range Building Program Account, and the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will continue to be less than under current law. Also, the tax credit for senior insulin and prescription drug costs is estimated to be larger than available funding for this credit allocated from the Health and Medicaid Initiatives Account by about \$0.900 million in fiscal 2006 and \$4.05 million in fiscal 2007. The credit claimed is anticipated to exceed funding available by about \$4.1 million in each fiscal year thereafter. The excess of credit over funding available will reduce general fund balances by these amounts in these years.

In future years the revenue from cigarette taxes is anticipated to decline continually, unless expanded Medicaid services are reduced commensurately there will be increased general fund costs to fill the gap. It is unclear under these circumstances whether school district employee costs would shift to the state, district, or employee.

TECHNICAL NOTES:

1. The current language of this bill doesn't necessarily prevent wholesalers or retailers from purchasing an unusual amount of cigarettes and tobacco products prior to the tax increase. If stockpiling occurs, then the revenue impacts provided in this fiscal note are overstated in fiscal 2004.
2. Section 2, which provides for the health insurance credit for employees of corporations refers to credit amounts based on the average age of "the group". This term is not defined in the bill.
3. Section 3, subsection (8); and Section 8, subsection (7); discuss that the department may grant a reasonable extension of time for filing a claim. It is unclear why this language is needed as taxpayers are not being asked to pay anything in the bill, but are being allowed either a credit or provided a payment. It is not clear why taxpayers would ever request an extension of time to receive either of these items.
4. Section 2 of the bill provides for tax credits for employers who employ 4 to 9 employees; however, the bill does not specify whether these must be full-time employees or if part-time employees also qualify.
5. It is unclear how the funds appropriated to OPI for school district employee health care coverage are to be used.
6. It is difficult to determine if the allocations in Section 20 will require further appropriation to implement.